

WISCONSIN STATE
LEGISLATURE
COMMITTEE HEARING
RECORDS

2005-06

[session year]

Assembly

(Assembly, Senate or Joint)

Committee on
Insurance
(AC-In)

(Form Updated: 11/20/2008)

COMMITTEE NOTICES ...

➤ Committee Reports ... CR
**

➤ Executive Sessions ... ES
**

➤ Public Hearings ... PH
**

➤ Record of Comm. Proceedings ... RCP
**

INFORMATION COLLECTED BY COMMITTEE
FOR AND AGAINST PROPOSAL ...

➤ Appointments ... Appt
**

Name:

➤ Clearinghouse Rules ... CRule
**

➤ Hearing Records ... HR (bills and resolutions)

05hr_ab0004_AC-In_pt04
(no date)

➤ Miscellaneous ... Misc
**



Examples of Small Businesses Saving Money Today:

1. **Ohio Small Business with 66 Employees (Ohio Waste Water) Saves \$207,566 (or 37%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*
2. **Ohio Self Employed Consultant Saves \$8,400 (or 66%) on Health Insurance Premiums First Year with HSA Plan.** "A self-employed engineering consultant in Granville, Ohio, also knows how costly traditional health insurance can be. Prior to establishing an HSA with Golden Rule, Griffith says he and his wife Kathy, who works part-time in retail, were spending \$1,111 a month for health insurance."

"[He is] now spending less than a third of what they were previously on their monthly premium alone." *(Golden Rule Insurance Company Press Release, September 29, 2004)*
3. **Pennsylvania Small Business Owning Couple Saves \$8,888 (or 77%) on Health Insurance Premiums with HSA Plan.** "The [small business owning couple] switched from traditional insurance to an HSA when their premium skyrocketed to over \$900 a month. Today, the [couple has] cut their premium to under \$200 a month and they're building savings for future medical expenses, tax deferred." *(Golden Rule Insurance Company Press Release, September 29, 2004)*
4. **Minnesota Small Business with 15 Employees (Mercury Office Supply) Saves \$12,000 First Year Offering Health Savings Account (HSA) Plan.** "Daniel Schmidt, chief executive of Mercury Office Supply, writes that his firm has saved \$12,000 in the first year it has offered an HSA plan. "As the CEO of a small business with less than 15 employees, it was difficult to tell my employees year after year that compensation had to remain virtually flat due to the rising costs of health insurance," Schmidt said. "It became imperative that all possible health care options were explored and evaluated." *(Editorial, "Minnesota Should Allow Taxpayers To Deduct Contributions To Health Savings Accounts", St. Paul Pioneer Press, September 26, 2004)*
5. **Minnesota Small Business with 18 Employees (Schwarz Williams Cos) Saves \$20,000 (or 23 Percent) First Year Offering HSA Plan.** "Schwarz Williams Cos., a Twin Cities firm that advises small businesses on health care options, has a client with 18 employees that saved more than \$20,000, or 23 percent, in the first year alone using an HSA plan." *(Editorial, "Minnesota Should Allow Taxpayers To Deduct Contributions To Health Savings Accounts", St. Paul Pioneer Press, September 26, 2004)*

6. **Wisconsin Small Business Owner, Dr. Jeffrey Wilder, Saves \$8,400 (or 70 Percent) On His Family Health Insurance Coverage In First Year with HSA Plan.** "Until last month, the Madison Chiropractic clinic owner [Dr. Jeffrey Wilder] was paying \$1,000 a month in premiums for his family's health insurance. To beat those costs, Wilder signed up for an insurance plan with a high deductible and then opened a health savings account, a newly introduced way to save on federal taxes while paying deductibles."

"Even though it's brand new, the possibility of having more control over my health care costs is very attractive to me," said Wilder, who'll receive a more than 70 percent cut in his premiums in exchange for that higher deductible." (Jason Stein, "Health Savings Account Helps Cover Medical Costs; New Plan Combines Tax Savings with High Deductible," *Wisconsin State Journal*, "August, 17, 2004)

7. **New Hampshire Self Employed Small Business Owner, Herve Riel, Saves \$6,600 (or 66 Percent) On His Individual Health Insurance Coverage In First Year with HSA Plan.** "Herve Riel, a Manchester accountant, found out his health insurance premiums were about to rise some 35 percent, to nearly \$1,000 a month."

"HSAs do seem to be an answer for Riel."

"Riel may be on the hook to pay as much as \$5,000 in out-of-pocket health expenses, but considering his premiums are a third of the \$10,000-a-year he would have paid..." ("Are Health Savings Accounts An Answer To Higher Costs?", *New Hampshire Business Review*, April 16, 2004)

8. **Iowa Small Business Counseling Service with 8 Employees Saves \$14,740 (or 32%) On Health Insurance Premiums First Year with HSA Plan.** (Associations Marketing Group, Inc., Jesse A Patton (President/CEO) Tel: 515 270-8178)
9. **Iowa Small Business OBGYN Clinic In Burlington with 13 Employees Saves \$40,608 (or 38%) On Health Insurance Premiums First Year with HSA Plan.** (Associations Marketing Group, Inc., Jesse A Patton (President/CEO) Tel: 515 270-8178)
10. **Pennsylvania single, self-employed elder home care provider saves \$1,700 (34%) her first year by exchanging her lower-deductible plan with a HSA-eligible health insurance plan.** (eHealthInsurance)
11. **Michigan Small Business with 16 Employees (Payne and Frey, LLC) Saves \$23,500 (or 33%) On Health Insurance Premiums First Year with HSA Plan.** (American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)
12. **Michigan Small Business with 18 Employees Saves \$23,500 (or 33%) On Health Insurance Premiums First Year with HSA Plan.** (American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)

13. **Michigan Small Business With 28 Employees (Lenawee Precision Plastic) Saves \$68,837 (or 48%) On Health Insurance Premiums First Year With HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*
14. **Washington State Small Non-Profit with 50 Employees (Horizon, Inc.) Saves \$140,000 (or 50%) On Healthcare Costs First Year with HSA Plan.** Tom Gaulke heads up non-profit Horizons, Inc. that offers employment training and re-training for welfare recipients, low-income individuals and those with disabilities and employs a staff of around 50. "[U]p until July 2003, he had offered [his employees] continuous health care coverage for the past 10 years. That all stopped last year when health care costs, just for 40 employees, rose to \$ 120,000 in annual premiums. Historically, his health care costs had risen 20 percent a year."

"Twenty on top of 20 on top of 20 starts to add up in a hurry," he said.

"For 2004 he projected his health care budget to be nearly \$ 180,000 or 8 percent of his \$ 2.5 million budget."

"This is a problem every business suffers from," he said. "When we were facing this catastrophe, we began researching our options."

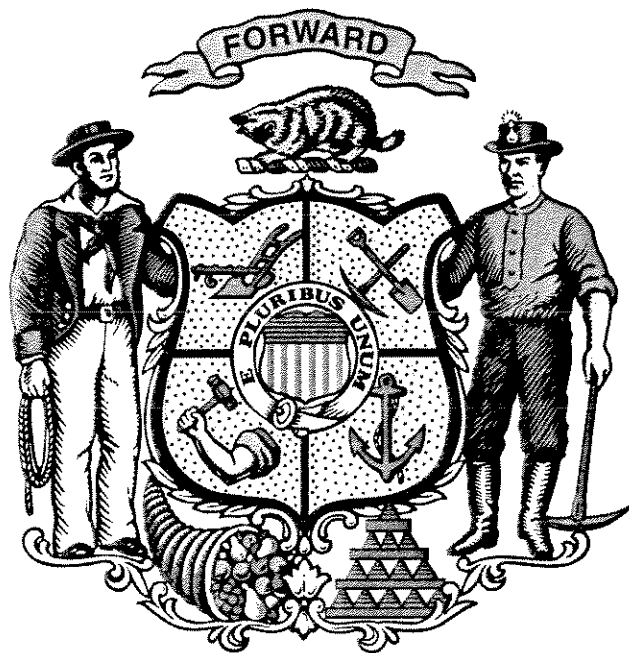
"Gaulke finally elected to go with Premera's group high deductible health plan, combined with Cashmere Valley Bank HSAs for his employees."

He said the high deductible plan by itself cut his health care costs in half.
(Rolf Boone, "HSAs Come To Cashmere Valley Bank: Interest Grows In Tax-Free Health Savings Accounts," Wenatchee Business Journal, August 1, 2004)
15. **Nebraska Small Business with 13 Employees (Rinder Printing) Saves \$34,029 (or 41%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*
16. **Indiana Small Business with 20 Employees (Lake City Heat Treating) Saves \$110,000 (or 52%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*
17. **Indiana Small Business with 46 Employees (Children First Center) Saves \$108,121 (or 59%) On Health Insurance Premiums First Year with HSA Plan.** *(American Community Mutual Insurance, Lisa A. Falk, tel: (734) 591-4617)*
18. **Georgia self-employed commercial roofer and single father of three, reduced his monthly health insurance premium costs (72%) from \$700 to \$200 and saves \$6,000 his first year with HSA-eligible health insurance plan.** He is also fully funding his HSA to cover his family's medical expenses before the deductible. *(eHealthInsurance)*

19. **Tennessee couple owns and operates a hair design salon and managed to reduce the family of three's annual health insurance premiums 64%, saving \$3,696 their first year. By re-investing some of their savings in an HSA, they are also lowering the family's tax burden. (*eHealthInsurance*)**
20. **Tennessee real estate agent reduces monthly health insurance premiums by 57%, saving the agent over \$2,500 her first year with an HSA eligible health insurance plan. (*eHealthInsurance*)**
21. **Illinois Small Business Legal Services Company Saves 24% on Health Insurance Premiums First Year with HSA Plan. (*Principal Life Insurance Company*)**
22. **Illinois Small Business Accounting Services Company Saves 38% on Health Insurance Premiums First Year with HSA Plan. (*Principal Life Insurance Company*)**
23. **Indiana Small Business Legal Services Company Saves 42% on Health Insurance Premiums First Year with HSA Plan. (*Principal Life Insurance Company*)**
24. **Illinois Small Business Drug Store Saves 45% On Health Insurance Premiums First Year with HSA Plan. (*Principal Life Insurance Company*)**
25. **Texas Small Business Painting Company Saves 4% on Health Insurance Premiums First Year with HSA Plan. (*Principal Life Insurance Company*)**
26. **Texas Small Business Research Company Saves 4% on Health Insurance Premiums First Year with HSA Plan. (*Principal Life Insurance Company*)**
27. **Tennessee Small Business Owner (Sherrie Jenkins of The Supply Room) Saves 30-40% on Health Insurance Premiums First Year with HSA Plan. "'What I save in premiums I contribute to the HSA,' Jenkins said. 'When your money is in the HSA, it is earning tax-deferred interest,' she said. 'That is definitely appealing.'" (*Member Benefits pages, December 2004/January 2005 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB)*)**
28. **Pennsylvania Small Business Owner (Richard Schauderk of Bella Custom Cabinets) Saves \$80 a Month In Premiums By Adopting a HSA Plan in 2004. "'It's affordable and seems like a practical way to do it,'" Schauderk says. (*Member Benefits pages, October/November 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB)*)**

29. **Texas Self Employed Business Owner (Dr. Scott Sims of Northview Chiropractic Center) Saves 33-50% a Month In Premiums By Adopting a HSA Plan in 2004.** "My new premiums are at least one half to a third of what I used to pay (with a traditional health individual insurance plan),' he says." *(Member Benefits pages, August/September 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*
30. **Michigan Small Business Owner (Betty Breakey) Saves Money By Adopting A HSA Plan In 2004.** "'I'm a healthy person so I couldn't see paying so much for health insurance,' she said. 'I want to put the money away [in a HSA] and use it someday if I need it.'" *(Member Benefits pages, April/May 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*
31. **Pennsylvania Small Business Owner (Donald Carey of Carey Excavating) Is Delighted To Find An Affordable HSA Plan in 2004.** "'I was so relieved to find out about HSAs and NFIB's plan. Now I have an (insurance) plan for \$197 a month. I couldn't believe it.'" *(Member Benefits pages, April/May 2004 issue of MyBusiness, the small business magazine from the National Federation of Independent Business (NFIB))*

If you would like to learn more about how to become a member of the Information-rich Health Savings Account (HSA) Project, please contact Vince Haley at (202) 375-2001 or info@healthtransformation.net.



NFIB® MEMBER BENEFITS THE CHOICE OF SMALL BUSINESS™



Insurance Solutions

Health Options

Business Services

Watch Your Money Grow in an HSA

SHERRIE JENKINS KNOWS that traditional health plans aren't the best use of her money. After years of paying high premiums for lower deductibles, she made the switch to a Health Savings Account (HSA).

Big Savings "I found that I could save 30 to 40 percent each year with a Health Savings Account," says Jenkins, owner of The Supply Room, an office supply company based in Nashville, Tenn.

Jenkins purchased a high-deductible health plan, coupled with a tax-free HSA, to cover herself and her family. Since then, she has watched the savings add up.

"What I save on premiums I contribute to the HSA," she says. "Our deductible is \$3,800, but when are you really going to have to meet that?"

Taxpayers who have high-deductible health plans can contribute up to \$2,600 a year (\$5,150 for families) into these savings accounts, which can be used to meet the deductible and pay for other qualified medical expenses.

You only pay for what you use. That's the advantage of an HSA.

"Why would you pay \$1,000 a month for a low deductible if you're not sick? You're paying that on the off-chance you'll have a claim," says Todd Page, national sales manager with the J.L. Barnes Group. "With an HSA, you buy only the insurance you need."

Making Money Money not spent stays in the HSA and earns interest, giving healthy individuals fallback funds for later expenses.

People who are at least 65 years old may withdraw money from their HSAs for any purpose without penalty, though the money withdrawn does become taxable. If you withdraw funds before the age of 65 for non-medical expenses, you will be charged a 10 percent penalty.

"You can use the HSA to pay deductibles now, pay for medical expenses later or if you don't use it for either, consider it an Individual Retirement Account," Page says.

And Jenkins knows the best part of it all. "It works just like a regular savings account. When your money is in there, it is earning tax-deferred interest," she says. "That is definitely appealing."



"What I save on premiums I contribute to the HSA"

SHERRIE JENKINS
The Supply Room
Nashville, Tenn.

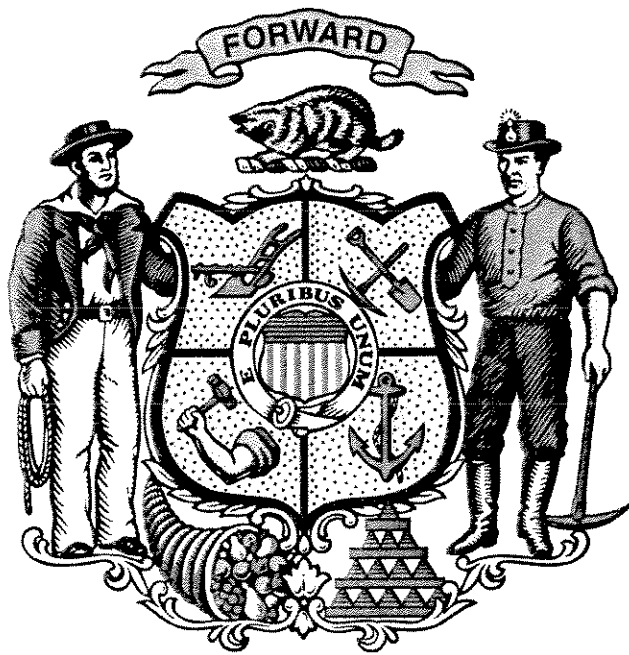
Picture the Savings By making the maximum yearly contribution to your Health Savings Account, you could have substantial savings by the time you retire – even if you use more than half of your HSA funds each year:

	Individual	Family
Yearly contribution	\$2,600	\$5,150
Withdrawal for medical expenses	\$1,600	\$3,150
Yearly savings	\$1,000	\$2,000
Projected annual return	4%	4%
Years until retirement	30	30

Savings at retirement **\$58,030** **\$116,060**

For more information or for a health insurance quote, call NFIB HealthBenefits at (888) 488-6266, or go online to www.NFIB.com/HealthBenefits.

AB-4 ??

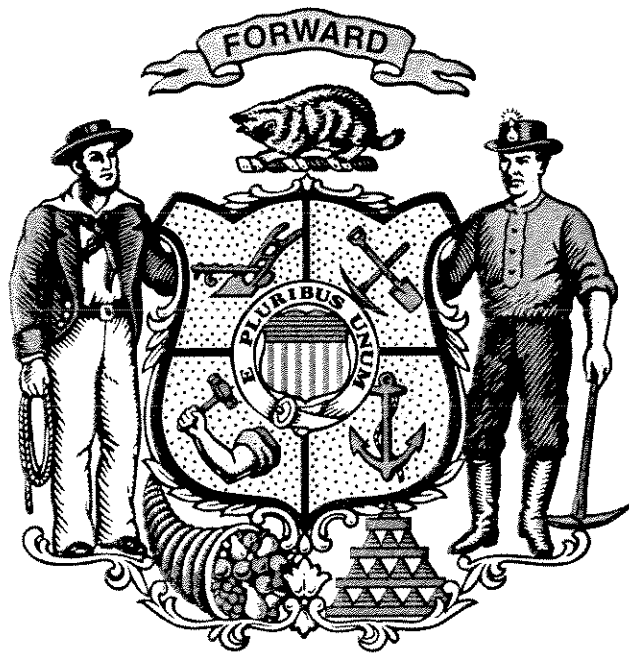


1. Call to Order—(No quorum is necessary for a public hearing)
2. Roll Call – Ask the clerk to call the roll. Announce that the roll will be left open and members marked present as they arrive
3. Announcements. Introduce Self, Vice Chair, clerk, leg council (Joyce Kiel), and _____, from Sergeant's office.
4. Procedural Stuff
- i. Slips located over there
 - ii. Please fill out slip and hand to Sergeant's staff if you wish to speak or simply register your position on the bill
 - iii. Announce _____ minute time limit on testimony
 - iv. Urge speakers to avoid repetition
 - v. Only committee members may question speakers and only after recognized by chair [jot down names in order as members signal chair]
 - vi. Lunch slips will be passed out at 11:30 if a member wants to buy lunch
5. Order of Business—AB 4 only bill. We will hear testimony today and we will exec on Tuesday, January 25 at 10.
6. Call:
- i. Primary author
 - ii. Agency
 - iii. Public (alternating for and against)
7. Adjournment, notice again of exec session.

MAH

By the Bill → Substituted
Revised

- Decker - Wickert



**ASSEMBLY SUBSTITUTE AMENDMENT 1,
TO 2005 ASSEMBLY BILL 4**

*was credit
now exemption*

January 18, 2005 – Offered by JOINT COMMITTEE ON FINANCE.

*Makes paperwork
more efficient*

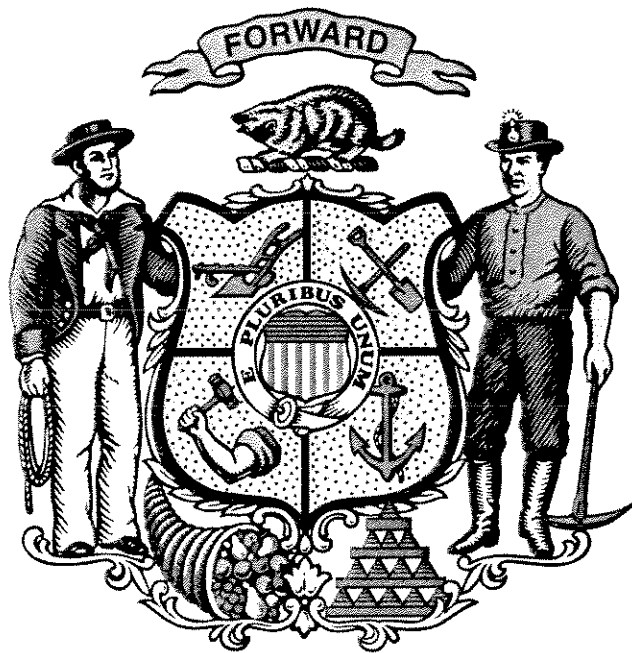
1 **AN ACT** *to create* 71.83 (1) (ce) and subchapter XVI of chapter 71 [precedes 71.98]
2 of the statutes; **relating to:** adopting federal law as it relates to health savings
3 accounts for state income and franchise tax purposes and providing a penalty.

Analysis by the Legislative Reference Bureau

This substitute amendment adopts, for state income and franchise tax purposes, section 1201 of Public Law 108–173 as it relates to claiming a deduction for an amount that a person pays into a health savings account.

The people of the state of Wisconsin, represented in senate and assembly, do enact as follows:

4 **SECTION 1.** 71.83 (1) (ce) of the statutes is created to read:
5 71.83 (1) (ce) *Health savings accounts.* Any person who is liable for a penalty
6 for federal income tax purposes under section 223 (f) (4) of the Internal Revenue Code
7 is liable for a penalty equal to 33 percent of that penalty. The department of revenue



Executive Session

Call to Order

Roll Call—Ask the clerk to call the roll. ^{Vote in presence} ~~Order that the roll be~~ of comm
~~left open and members accounted for as they arrive.~~ Announce
“A quorum is present”

Announcements.

Order of business—take up AB 4

First motion is Adoption of Assembly Substitute Amendment 1 to
Assembly Bill 4 and requires a second

Discussion
Clerk calls names

Report vote “we have _____ ayes and _____ nayes

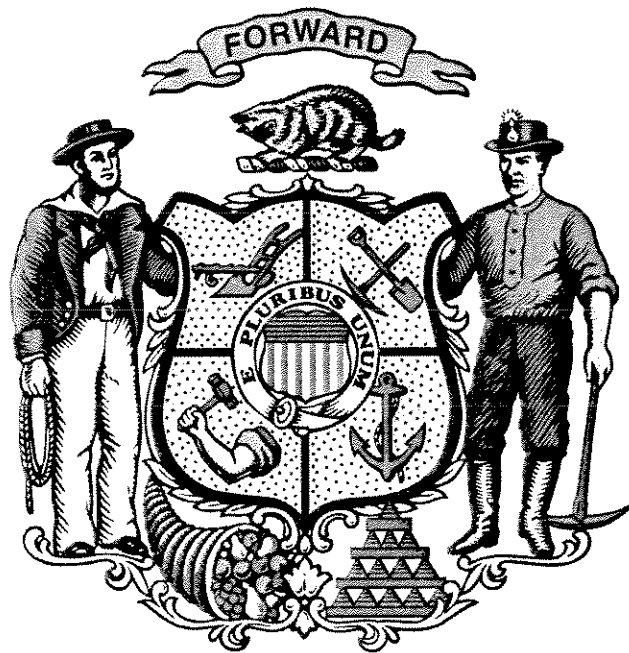
Second motion is passage and requires a second

Discussion
Clerk calls names

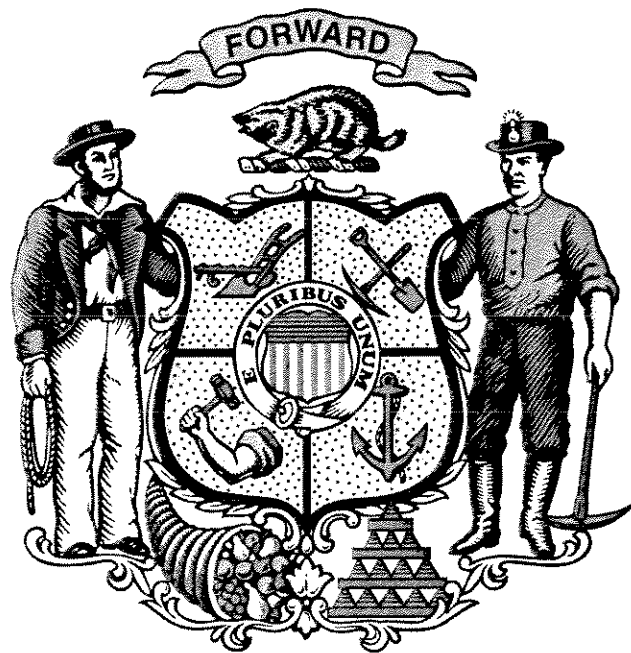
Report vote ayes/nayes *to amended*

~~We will leave the roll open until 11 oclock.~~

Adjournment



1. Call to Order—(No quorum is necessary for a public hearing)
2. Roll Call – Ask the clerk to call the roll. Announce that the roll will be left open and members marked present as they arrive
3. Announcements. Introduce Self, Vice Chair, clerk, leg council (Joyce Kiel), and _____, from Sergeant's office.
4. Procedural Stuff
 - i. Slips located over there
 - ii. Please fill out slip and hand to Sergeant's staff if you wish to speak or simply register your position on the bill
 - iii. Announce _____ minute time limit on testimony
 - iv. Urge speakers to avoid repetition
 - v. Only committee members may question speakers and only after recognized by chair [jot down names in order as members signal chair]
 - vi. Lunch slips will be passed out at 11:30 if a member wants to buy lunch
5. Order of Business—AB 4 only bill. We will hear testimony today and we will exec on Tuesday, January 25 at 10.
6. Call:
 - i. Primary author
 - ii. Agency
 - iii. Public (alternating for and against)
7. Adjournment, notice again of exec session.

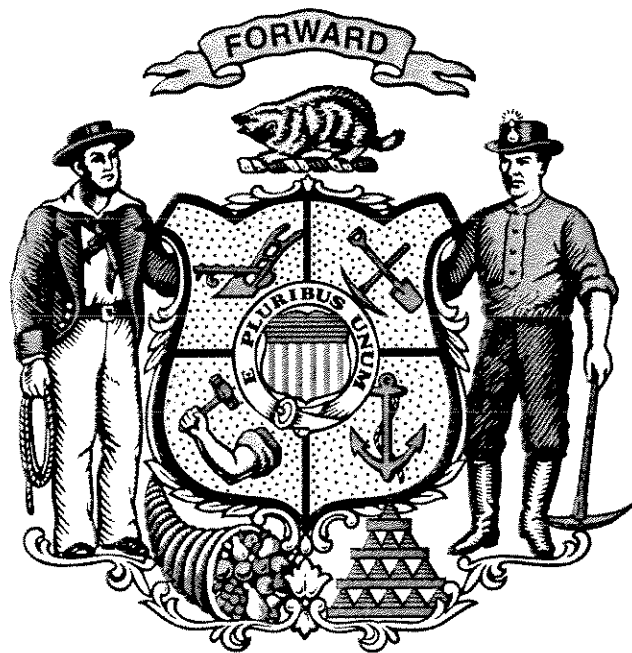


Dean - Budget Buddy System?

Consumers Task Force
on road w/ colleagues?

20-25000
plus for
HSAs now

AB-4 37



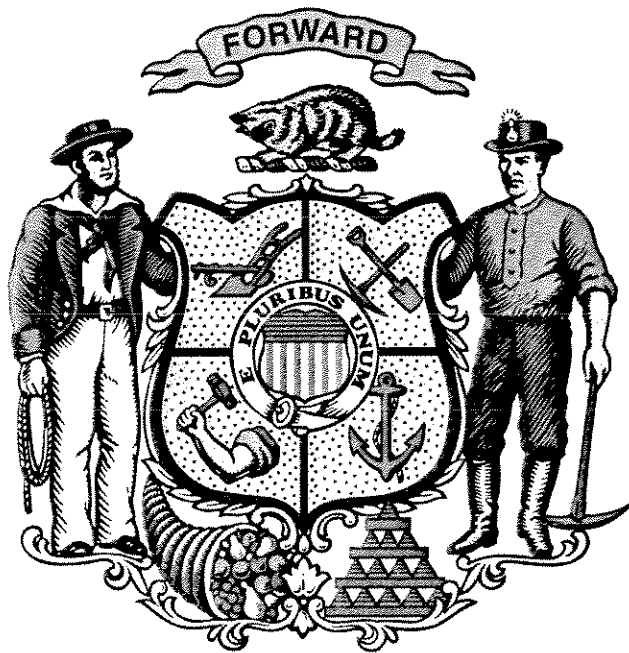
Executive Session



- Call to Order
- Roll Call—Ask the clerk to call the roll.
- Announce “A quorum is present”
- Announcements.
 - Include apology for room and usually different room
 - Announce policies and procedures emailed on Friday.
Every effort will be made to follow them.
- Order of business—take up AB 4
- First motion is Adoption of Assembly Substitute Amendment 1 to Assembly Bill 4 and requires a second
- Discussion
- Clerk calls names
- Report vote “we have 9 ayes and 6 noes

- Second motion is passage as recommended and requires a second
- Discussion
- Clerk calls names
- Report vote “we have 9 ayes and 6 noes

- Adjournment



HSA LEGISLATION - ASSEMBLY INSURANCE COMMITTEE

Assembly Bill 4

CHAD ZULEGER
@eam5.com

Contact: AMS Government Affairs Department
Chad Zuleger, office 920-661-2031, cell 920-680-9473

The Assembly Insurance Committee meets on Assembly Bill 4 (AB 4) regarding tax deductibility incentives for Health Savings Account (HSA) contributions. The proposed state tax deduction mirrors tax deductions at the federal level, which help promote HSA products for individual and small group high deductible health plans (HDHP).

Last session a similar proposal passed both the state Assembly and state Senate before being vetoed by Governor Doyle – the only Governor in the nation to veto HSA tax deductibility, leaving Wisconsin as one of only eleven states without state matching federal deductibility.

Following action in the Insurance Committee, AB 4 will move to the full Assembly then on to the Senate before arriving on Governor Doyle's desk for signature or veto. It is imperative that our legislative leaders and Governor Doyle hear from those who support tax deductibility for HSAs as soon as possible.

Tax deductibility for HSA contributions will:

- Increase health insurance coverage in Wisconsin
- Encourage the growth of personal health savings accounts
- Empower consumers in health care decision making

When Governor Doyle vetoed HSA legislation last session he used the following justification:

- HSAs are used only by the wealthy – **UNTRUE. 29% of HSA purchasers earn less than \$50,000 and 27% have a net worth of less than \$25,000***
- HSAs are utilized solely by the young – **UNTRUE. 48% of individual HSA purchasers are over the age of 40, and 47% in the small group market over 40****

In addition, 43% of individual HSA applicants reported no prior health insurance coverage, while 16% of small group HSA policies were sold to employers that previously offered no health care coverage.* Consumers want HDHP/HSAs. Wisconsin should encourage individuals and businesses to join the ranks of the insured. Taxing HSAs while the federal government promotes them through tax deductions sends the wrong signal.

* National data from Assurant Health Insurance as of October, 2004 and come from over 90,000 HSA/HDHP enrollees

** National data provided from America's Health Insurance Plans members with HSA/HDHP enrollment over 130,000 as of 3rd Q 2004

GROOM LAW GROUP

www.groom.com

State/District Tax Treatment of Health Savings Accounts (HSAs)

State/District	Conforms to IRC for HSA Purposes	Comments
1. Alabama	No	Alabama does not use federal definitions of income and does not provide tax relief for HSAs.
2. Alaska	N/A	Alaska has no personal income tax.
3. Arizona	Yes, generally conforms to IRC as of 1/1/2004.	Arizona conforms to federal tax law; HSA tax advantages flow through.
4. Arkansas	No	Arkansas does not use federal definitions of income and does not provide tax relief for HSAs.
5. California	No	While California does conform to many IRC provisions, it does not apply federal HSA legislation. Legislative measures to achieve HSA conformity failed in 2004 and may be reintroduced in 2005.
6. Colorado	Yes	Colorado conforms to federal tax law; HSA tax advantages flow through.
7. Connecticut	Yes	Connecticut conforms to federal tax law; HSA tax advantages flow through.
8. Delaware	Yes	Delaware conforms to federal tax law; HSA tax advantages flow through.
9. District of Columbia	Yes	DC conforms to federal tax law; HSA tax advantages flow through.
10. Florida	N/A	Florida has no personal income tax.
11. Georgia	Yes, generally conforms to IRC as of 1/1/2004.	Georgia conforms to federal tax law; HSA tax advantages flow through.
12. Hawaii	Yes, generally conforms to IRC as of 12/31/2003.	Hawaii's Act 89 (2004) conforms state taxes with federal law, as amended to Dec. 31, 2003. HSAs are included. See HI-Ann. 2004-02.
13. Idaho	Yes, generally conforms to IRC as of 1/1/2004.	Idaho conforms to federal tax law; HSA tax advantages flow through.
14. Illinois	Yes	Illinois conforms to federal tax law; HSA tax advantages flow through.
15. Indiana	Yes	Indiana conforms to federal tax law; HSA tax advantages flow through.
16. Iowa	Yes	Iowa conforms to federal tax law; HSA tax advantages flow through.
17. Kansas	Yes	Kansas conforms to federal tax law; HSA tax advantages flow through.
18. Kentucky	No	Kentucky does not yet conform to post-2001 federal tax legislation, hence HSA contributions are nondeductible, HSA interest is taxable, but HSA distributions are exempt (because income has already been taxed). See KY Instructions to Form 740 (2004).
19. Louisiana	Yes	Louisiana conforms to federal tax law; HSA tax advantages flow through.
20. Maine	No	Health Savings Accounts Add-back. 36 M.R.S.A. § 5122(1) (W). Maine requires taxpayers to add back to income amounts contributed to health savings accounts to the extent the amount is not included in federal adjusted gross income. The new add-back applies to tax years beginning after 2003. See LD #1813, PL 2003 c.705, Sec. 9. Note: for other tax provisions, Maine generally conforms to IRC as of 12/31/2003.
21. Maryland	Yes	Maryland conforms to federal tax law; HSA tax advantages flow through.
22. Massachusetts	No	Massachusetts does not conform to recent federal tax law (generally

GROOM LAW GROUP

www.groom.com

State/District	Conforms to IRC for HSA Purposes	Comments
		conforms to IRC as of 1/1/1998). As a result, HSA employer contributions are includible in gross income, individual contributions cannot be deducted, and HSA earnings are taxable. See MA Form 1 Instructions (2004), at 5.
23. Michigan	Yes	Michigan conforms to federal tax law; HSA tax advantages flow through.
24. Minnesota	No	Minnesota does not conform to recent federal tax law changes (generally conforms to IRC as of June 15, 2003). Hence, HSA deductions do not flow through. HSA deductions must be reversed when determining Minnesota tax. Consult Schedule MINC for details. See MN Income Tax News Letter (Dec. 12, 2004).
25. Mississippi	No	Mississippi does not conform to federal tax law and has not provided HSA tax relief.
26. Missouri	Yes	Missouri conforms to federal tax law; HSA tax advantages flow through.
27. Montana	Yes	Montana conforms to federal tax law; HSA tax advantages flow through.
28. Nebraska	Yes	Nebraska conforms to federal tax law; HSA tax advantages flow through.
29. Nevada	N/A	Nevada has no personal income tax.
30. New Hampshire	N/A	New Hampshire has no personal income tax.
31. New Jersey	No	New Jersey does not conform to federal tax law. While NJ has a state exemption for Archer MSAs, it does not currently provide any HSA relief.
32. New Mexico	Yes	New Mexico conforms to federal tax law; HSA tax advantages flow through.
33. New York	Yes	New York conforms to federal tax law; HSA tax advantages flow through.
34. North Carolina	Yes	North Carolina conforms to federal tax law; HSA tax advantages flow through.
35. North Dakota	Yes	North Dakota conforms to federal tax law; HSA tax advantages flow through.
36. Ohio	Yes	Ohio conforms to federal tax law; HSA tax advantages flow through. If an Ohio taxpayer also deducts money transferred to an Ohio Medical Savings Account ("OMSA"), the OMSA deduction must be reduced by the Federal HSA deduction. See OH IT 1040 Instructions, at 19 (2004).
37. Oklahoma	Yes	Oklahoma conforms to federal tax law and HSA tax advantages flow through. An OK taxpayer cannot claim a deduction for an Oklahoma Medical Savings Account if an HSA deduction is claimed on the federal return. See OK Form 511 packet, at 17 (2004).
38. Oregon	Yes	Oregon does not conform to recent federal tax law changes (generally conforms to IRC as of 12/31/2002), but specifically conformed to the HSA legislation. OR allows the same HSA deduction that has been claimed on the federal return. See OR 2004 Personal Income Tax Guide, at 44.
39. Pennsylvania	No	Pennsylvania does not conform to federal tax law and has not enacted legislation to allow for pre-tax contributions to HSAs. See PA Letter Ruling PIT 04-005 (Mar 12, 2004).
40. Rhode Island	Yes	Rhode Island conforms to federal tax law; HSA tax advantages flow through.
41. South Carolina	Yes	South Carolina conforms to federal tax law; HSA tax advantages flow through.
42. South Dakota	N/A	South Dakota has no personal income tax.

GROOM LAW GROUP

www.groom.com

State/District	Conforms to IRC for HSA Purposes	Comments
43. Tennessee	N/A	Tennessee has no personal income tax.
44. Texas	N/A	Texas has no personal income tax.
45. Utah	Yes	Utah conforms to federal tax law; HSA tax advantages flow through.
46. Vermont	Yes, generally conforms to IRC as of 12/31/2003.	Vermont conforms to federal tax law; HSA tax advantages flow through.
47. Virginia	Yes, generally conforms to IRC as of 12/31/2003.	Virginia conforms to federal tax law; HSA tax advantages flow through. See VA P.D. 04-40 (Aug. 1, 2004).
48. Washington	N/A	Washington has no personal income tax.
49. West Virginia	Yes	West Virginia conforms to federal tax law; HSA tax advantages flow through.
50. Wisconsin	No	Wisconsin generally follows the IRC as amended to December 31, 2002. Because the federal provisions relating to health savings accounts were enacted during 2003, they do not apply for Wisconsin for taxable years beginning in 2004. See WI-Tax Bulletin No. 140 (2004).
51. Wyoming	N/A	Wyoming does not have a personal income tax.



Center for Policy
and Research

HEALTH SAVINGS ACCOUNTS OFF TO A FAST START IN THE INDIVIDUAL MARKET

Preliminary data from AHIP members show 438,000 people covered by September 2004

By Teresa Chovan and Hannah Yoo¹

Health Savings Accounts (HSAs) are designed to give consumers financial incentives and information to choose their health care providers and manage their own health expenses. HSAs were created in December 2003 as part of the Medicare Modernization Act of 2003, and regulatory guidance was released by the Internal Revenue Service mid-year 2004. Modeled after Archer Medical Savings Accounts (MSAs), individuals' HSAs must be coupled with a High Deductible Health Plan (HDHP) to cover current and future health care costs.

AHIP has embarked on an ongoing project to monitor and report on the emerging HSA/HDHP health insurance market through a series of member surveys. This report contains data from the first two surveys conducted in June and September 2004, containing data from 29 companies. The next survey will be conducted in March of 2005.

Market Overview

According to responding companies, HSA/HDHP products covered 438,000 people by the third quarter of 2004. By comparison, the initial take up for MSAs was roughly 40,000 by 1997, 60,000 by 1998 and 90,000 in 1999.²

Table 1. HSA/HDHP Sales as of 3 rd Quarter 2004	
	Total Covered Lives
Individual Market	346,000
Small Group Market	79,000
Large Group Market	13,000
Total	438,000

The individual market appears to have adopted HSA/HDHP coverage more rapidly than either the small group or large group markets. As of September 2004, AHIP member companies had 346,000 covered lives in the individual market. In the small-group market, 79,000 people were covered by

¹ The authors are with the Center for Policy and Research at America's Health Insurance Plans.

² Internal Revenue Service, Individual Master File System. Data reported are for "tax units" as counted by the IRS, which may include more than one individual.

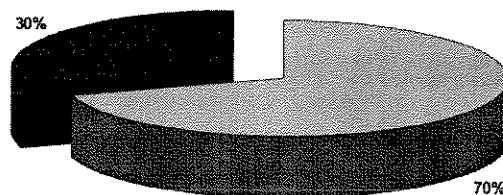
HSA/HDHPs, and in the large-group market, the number of covered persons was about 13,000. Table 1 shows the total number of covered lives as reported in the survey.

In general, preliminary data suggest that HSA/HDHP coverage is not limited to a single age or gender. Consumers over age 40 represent nearly half of the market.

Individual Market

Responding companies reported a total of 346,000 people covered by individually purchased HSA/HDHPs in September 2004. A subgroup of companies reported the percentage of policies that were sold to previously uninsured people, compared to those that were replacement policies. For those providing this data³, the survey showed that 30% of policies were purchased by individuals who previously did not have coverage. (Figure 1)

Figure 1. 30% of HSA/HDHP policies sold in the individual market were purchased by persons previously uninsured.

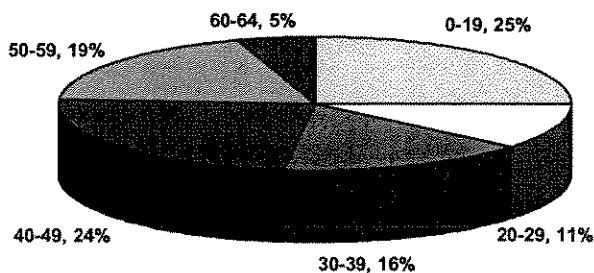


AHIP. Data as of 3rd Q 2004, weighted by covered lives

4

The age distribution of people covered by HSA/HDHPs in the individual market appears to be evenly allocated among major age groups: 25% of covered people are younger than 20 years of age, 27% are between ages 20 and 39, 24% are between ages 40 and 49 years, and 24% are between ages 50 and 64. (Figure 2) Fifty-one percent of people covered were male; 49% were female.

Figure 2. Age Distribution of Covered Lives - Individual Market for HSA/HDHP Products



AHIP. Data as of 3rd Q 2004, weighted by covered lives

AHIP asked companies to report sales figures for all HSA products, and also for their best selling HSA product. In the individual market, 58% of policies sold were for the companies' most popular product.

³ Companies responding to this question reported HSA/HDHP enrollment of 132,000 in the individual market.

Table 2 provides information on deductibles, out-of-pocket limits and maximum lifetime benefits for the individual market.

Table 2. Description of HSA/HDHP Policies Individual Market – Best Selling Product		
	Single	Family
Average Annual Deductible	\$2,856	\$5,425
Average Annual Out-Of-Pocket Limit	\$3,068	\$5,781
Average Lifetime Maximum Benefit	\$3.8 Million	\$3.8 Million

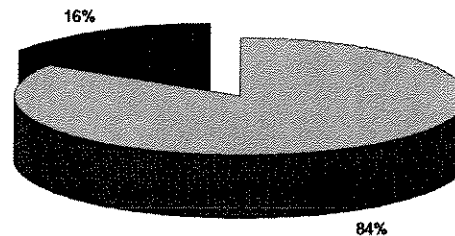
Premiums for best selling policies in the individual market, by age group, are provided in Table 3.

Table 3. Average Premiums of HSA/HDHP Policies, by Age Group Individual Market – Best Selling Product				
	Age 0-19	Age 20-29	Age 30-54	Age 55-64
Average Annual Premium, Single Policy	\$1,013	\$978	\$1,902	\$3,440
Average Annual Premium, Family Policy	\$1,310	\$1,515	\$2,641	\$4,581

Employer Market: Small Group Policies

The small group insurance market was defined as serving firms with up to 50 employees. AHIP members selling HSA/HDHP products reported enrollment of 79,000 people in the small group market as of September 2004. Sixteen percent of small group policies (1,900) were sold to employers that previously offered no health care coverage to their workforce prior to the HSA/HDHP policy, and these “new” policies covered 22,000 employees. (Figure 3)

Figure 3. 16% of Small Group HSA/HDHP policies were sold to employers that previously offered no health care coverage.



America's Health Insurance Plans
Data as of 3rd Q 2004

The age distribution for covered lives in the small group market is similar to that seen in the individual market. In the small group market 47% of individuals covered by an HSA/HDHP are age 40 or older; 52% are male and 48% are female.

Average deductibles for the best-selling HSA/HDHPs in the small group market were lower than those in the individual market, as were the average annual out-of-pocket limits. The average lifetime maximum benefit for small group policies was in the \$4 million range.

Data regarding deductibles, out-of-pocket limits and lifetime maximum benefits for the small group market, as well as average annual premiums, are provided in Table 4.

Table 4. Description of HSA/HDHP Policies Small Group Market – Best Selling Product		
	Single	Family
Average Annual Deductible	\$1,850	\$4,007
Average Annual Out-of-Pocket Limit	\$2,207	\$4,793
Average Lifetime Maximum Benefit	\$4.1 Million	\$4.4 Million
Average Annual Premium	\$2,224	\$5,496

Employer Market: Large Group Policies

Data reported on the large group market – defined as having more than 50 employees - were quite limited and do not allow for extensive reporting. Even though 54% of responding companies currently selling HSA/HDHP coverage were in the large group market as of September 2004, only a few were able to provide data. According to the survey, large group policies cover approximately 13,000 people. The lack of data on policies in the large group market may be attributed to the fact that HSAs were created in December 2003 – too late to be incorporated in most companies' open enrollment policies for employees' coverage in 2004.

Table 5 provides the average annual deductibles, out-of-pocket limits, and lifetime maximum benefits for single and family policies in the large group market.

Table 5. Description of HSA/HDHP Policies Large Group Market – Best Selling Product		
	Single	Family
Average Annual Deductible	\$1,607	\$3,000
Average Annual Out-of-Pocket Limit	\$2,550	\$4,736
Average Lifetime Maximum Benefit	\$3.2 million	\$4.8 million

Many large employers may currently offer Health Reimbursement Arrangements (HRA) plans, which have features similar to HSAs and have been available since 2002. This survey focused on the HSA product only and does not take into account HRA enrollment.

Looking Ahead

Many companies responding to the survey stated they intend to offer HSA/HDHP coverage in the individual and employer markets in 2005. As the market matures over the next six to twelve months and more insurers and health plans introduce HSA products, additional data will become available through AHIP's Center for Policy and Research, www.ahipresearch.org.

For further information on HSAs visit www.HSADecisions.org, AHIP's new clearinghouse of information for consumers and small businesses, cosponsored by the U.S. Small Business Association.



Copyright © 2004 by America's Health Insurance Plans. All rights reserved.

America's Health Insurance Plans
601 Pennsylvania Ave., NW
Suite 500
Washington, DC 20004

202.778.3200
www.ahip.org